

## DOCUMENT RESUME

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Report to Sen. Patrick J. Leahy, Chairman, Senate Committee on Appropriations: District of Columbia Subcommittee; by Robert F. Keller, Acting Comptroller General.

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Analysis of the District of Columbia's proposal to construct and operate a civic center in downtown Washington did not result in any definitive views on the economic feasibility of the center. Findings/Conclusions: Major areas of vulnerability that were identified included uncertainties about (1) the net additional visitors the District can expect as a result of the center; (2) final construction costs; and (3) the ability of the District to provide for the effective management seen as critical to the success of the center. The net financial benefits to the city will be dependent on the additional visitors the center draws to Washington. The consultant's estimate of between 310,000 and 390,000 additional visitors is far from solid, with anticipated financial benefits being reduced to the extent that this estimate is overstated. The two areas of uncertainty with regard to the final construction costs include the very accuracy of the present \$110 million estimate, even if there are no complications, and the ability of the District to overcome a number of potential problems that could result in cost-escalating construction delays. The consultant advised that a year's delay will increase the construction costs by \$6 to \$8 million, and if the total projected cost of \$110 million increases to \$120 million or more, the economic feasibility of the center becomes questionable. (SC)

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**RELEASED**



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-118638

May 18, 1977

The Honorable Patrick J. Leahy  
Chairman, Subcommittee on the  
District of Columbia  
Committee on Appropriations  
United States Senate

Dear Mr. Chairman:

Your letter of March 30, 1977, requested us to analyze the economic feasibility of the District of Columbia's proposal to construct and operate a civic center in downtown Washington. You asked that an analysis be delivered to the Subcommittee by May 18, 1977.

We have met your target date, but the time constraint imposed has not allowed us to arrive at any definitive views on the economic feasibility of the center. We have, however, identified the principal areas of vulnerability. These concern uncertainties regarding:

- The net additional visitors the District can expect as a result of the center; hence, uncertainty regarding its net financial benefits to the city.
- Final construction cost. There are two areas of uncertainty here: (1) the very accuracy of the present \$110 million estimate, even if there are no complications, and (2) the ability of the District to overcome a number of potential problems that could result in cost-escalating construction delays.
- The ability of the District to provide for the effective management seen as critical to center success.

Our study, which is attached as enclosure I, provides information on these areas of concern. The comments of the Director, Municipal Planning Office, are attached as enclosure II. These were received too late for indepth analysis; however, as you will note, the Director believes we have clearly defined the issues involved. His observations on the various matters discussed in our study present the optimistic side of what may transpire in the future. We hope he proves correct.

Sincerely yours,

*R. F. K. K. K.*  
Acting Comptroller General  
of the United States

Enclosures - 2

GGD-77-58

ANALYSIS OF THE PROPOSED  
DISTRICT OF COLUMBIA CIVIC CENTER

SUMMARY

At the request of the Chairman, Subcommittee on the District of Columbia, Senate Committee on Appropriations, the General Accounting Office has studied the economic feasibility of the District of Columbia's proposal to construct and operate a civic center in downtown Washington.

Because of time constraints, we have not arrived at any definitive views on the question of economic feasibility. We have, however, identified the principal areas of vulnerability. These concern uncertainties regarding:

- The net additional visitors the District can expect as a result of the center; hence, uncertainty regarding its net financial benefits to the city.
- Final construction cost. There are two areas of uncertainty here: (1) the very accuracy of the present \$110 million estimate, even if there are no complications and (2) the ability of the District to overcome a number of potential problems that could result in cost-escalating construction delays.
- The ability of the District to provide for the effective management seen as critical to center success.

BACKGROUND

As proposed by the District of Columbia, its new civic center will consist of 380,000 square feet of exhibit and meeting room space and will cost approximately \$110 million. At this cost, debt service is estimated at \$8.3 million annually for 30 years. An operating deficit of approximately \$500,000 to \$600,000 for a normal year is projected.

The center is to be located on a site of about 10 acres on the south side of Mt. Vernon Square (bounded by 9th, 11th, and H Streets and New York Avenue, NW). Construction is scheduled to be completed by mid 1981.

The District's proposal for the civic center is supported by a consultant's conclusion that the center would produce an economic "profit" to the city after all costs including debt service. The consultant's

report states that the center can be a powerful generator of economic development for the city, offering substantially increased tax revenues, new jobs and business receipts, and can be an important element in revitalizing downtown.

Fees paid to the center are a small fraction of the total revenues expected to result from the civic center. By attracting 310,000 to 390,000 additional visitors to Washington each year, the consultant estimates that the center would generate about \$100 million of spending in the city. Because this spending would be subject to a variety of sales, hotel, property, and income taxes, it is projected that tax revenues would increase by about \$14 million per year when the center is fully operational. The center is expected to reach normal occupancy 3 years after opening. During construction and early operation period (1978-1982), a total of \$16 million will be needed to offset the revenue shortfall expected. The city plans to enact a hotel room tax and continue the franchise surtax on corporate and unincorporated businesses to make up the shortfall.

New hotels would be built and several thousand new jobs would be created, if all goes according to plan. The new tax revenues and other "spin-off" developments are the main benefit to the city, not the direct revenues of the civic center.

The consultant emphasizes throughout the 124-page report that to be economically feasible, the center must be well-designed, well-managed, and well-located. He also sets forth the following conditions of feasibility.

"Feasibility as defined in the study, is neither inevitable nor automatic. Several key factors will be important in achieving feasibility, most particularly control of construction costs, management effectiveness and positive actions to assure projected spin-off development. In order to maintain feasibility as defined in the study, a strong commitment to the management and development process will be required by the District of Columbia." (Underscoring added.)

The consultant has performed studies such as this for other cities and otherwise appeared well-qualified for this project.

#### UNCERTAINTY REGARDING ADDITIONAL VISITORS

The accuracy of the District's estimate of the net financial benefit of the center hinges on the projection of net additional visitors the city will receive as a result of the center.

The methodology used by the District's consultant to estimate these visitors appears reasonable. But, of necessity, it is (1) based on assumptions that could easily prove incorrect and (2) subject to unanticipated external events which were not even considered.

The consultant's study was based on sampling 45 of 325 potential users--groups and organizations that did not at the time include the District in their plans. Based on the responses from the 45 potential users, the consultant concluded that the center would annually draw, "between 41-52 major non-local events." These events include conventions (31-38), large meetings (6-9), and trade shows (4-5). Events that would come to the center, after considering other local available convention space, would bring between 310,000 to 390,000 delegates to the city.

The consultant's study represents a competent professional effort to analyze the pertinent information and reach supportable conclusions. However, some assumptions, such as forecasting future market trends, are based on best judgments because no hard data are available that would permit future predictions with any degree of certainty.

For example, no one can really foretell all the conditions that may exist when the center is scheduled to open 4 years from today (1981) and that might affect the number of convention delegates that would come to Washington. The choice of available convention facilities that may be available at that time is not known. Even the energy picture could materially affect attendance at future conventions.

Potential users surveyed by the consultant did not make any commitment to book meetings in the proposed center, nor did they know for certain what choice they would have in convention sites in the 1980's and beyond.

The local civic center would face competition not only from other cities, but from local facilities. The competition from the Sheraton-Park Hotel would probably be greater than the consultant assumed. The consultant used 110,000 square feet for the Sheraton-Park in its market analysis, but the hotel will be able to accommodate conventions up to 165,000 square feet when its current construction program is complete. Also, the square-footage requirements given by meeting organizations are usually high, and they will often accept considerably less space than requested. We were told that organizations overestimate space needs by about 25 percent.

We believe that there is likely to be significant local competition for meetings that require 100,000 to 200,000 square feet of space. According to the consultant's report, 227 or 85 percent of the potential

users require 200,000 square feet or less. Also, it should be kept in mind that the civic center would be competing with centers throughout the Nation for the other 15 percent, or 48 conventions.

Obviously, to the extent other local facilities were used and would be used in any event, the consultant's estimate of net additional visitors would be overstated.

Further, the delegate business actually realized by the center could be less than projected by the consultant if the assumed "optimal marketing and scheduling conditions" do not occur. The annual percentage of the center's available space that is used by nonlocal meetings is assumed to be higher than the average convention center nationwide. The actual percentage could turn out to be less than assumed due to local competition for part of the center's market, increased competition from large convention centers in other cities, scheduling conflicts among potential users, etc. Nonlocal usage of the center determines the financial benefits (tax revenues minus operating and construction costs) that the city will earn from building it. The real (uninflated) annual rate of return on the city's investment will be 3 to 4 percent if all of the consultant's assumptions hold.

In summary, the consultant's estimate of between 310,000 and 390,000 additional visitors is far from solid. Anticipated financial benefits will be reduced to the extent that this estimate is overstated.

UNCERTAINTY REGARDING  
FINAL CONSTRUCTION COST

There are two areas of uncertainty: (1) the very accuracy of the present \$110 million estimate, even if there are no complications, and (2) the ability of the District to overcome a number of potential problems that could result in cost-escalating construction delays.

The Director of the Municipal Planning Office testified before the City Council that the calculations for economic feasibility are based on the assumption of " \* \* meeting our timetable and construction cost estimates." According to the consultant, a year's delay will increase construction costs by \$6 to \$8 million. Also, according to the consultant, if the total projected cost of \$110 million increases to \$120 million or more, economic feasibility of the center becomes questionable.

Uncertain accuracy of cost estimate

According to the District, the center's cost of \$109.6 million is a product of a careful cost estimating process. The figures that were developed for the Eisenhower Center in 1973 were modified to allow for the changes in design and for intervening inflation. Those figures had been developed from substantial work on that center and were considered valid at the time. A District official said that this process was used by the Department of General Services which he stated has great experience and an excellent track record in making accurate estimates. He pointed out that the Department had come in under estimates and within timetables on other major projects such as the Martin Luther King Library, D.C. Detention Center and new courthouse.

Cost estimates for making title searches, acquiring land, relocating families, designing and constructing the civic center were developed, in some cases by the Departments of General Services (DGS) and Housing and Community Development (DHCD) or DGS and a consulting firm. Differences in the cost data provided us cast doubt on the reliability of the total project cost estimate of \$109.6 million. The data indicate that the estimate for the civic center could either be \$12.6 million less or \$7.9 million more, depending on the cost figures accepted.

For example, DGS used the Eisenhower Center cost, developed in 1973 by a consulting firm, to estimate the cost of excavation, foundations, and the superstructure of the proposed civic center. Although DGS in December 1973 revised the consultant's cost upward from \$41.5 million to \$45.8 million to reflect items omitted in the initial estimate, it used the lower figure of \$41.5 million to escalate the Eisenhower Center cost.

Had DGS used the revised cost of \$45.8 million as a base for estimating the construction cost of the proposed civic center, the total building construction and construction services cost would have been increased by \$7.9 million. We attempted, but were unable to obtain an explanation for this apparent discrepancy.

Possible delays could  
escalate construction cost

The consultant's report stated that if expedited on a realistic yet stringent timetable, a civic center could be opened for operation by mid-1981. To meet this timetable, initial funding and approval should be secured so that site acquisition and relocation can begin during 1977. Timing is stated to be of critical importance. Every year of delay could cost an additional \$6 million to \$8 million in construction costs.

According to the District, to meet the time schedule, funds must be available on October 1, 1977, and resources must be identified to pave the way for intensive action following October 1, to acquire the site, relocate residents and secure necessary approvals.

The timetable for the center is as follows:

<u>Process</u>	<u>Start</u>	<u>Complete</u>
Site acquisition (note a)	10-1-77	3-30-79
Relocation-businesses, residents and clearing site	10-1-77	3-30-79
Final project design	3-1-78	4-1-79
Construction	4-1-79	7-31-81

Note a: Land acquisition 10-1-77 to 10-1-78.

We were unable to establish what slack time, if any, exists in the time allowed between start and completion of each step. We noted that the dates for completing certain key actions were established without consulting with the District agencies involved. It is possible that delays in the start of any step would result in proportionate delays in completion.

Preacquisition

The DHCD must prepare to acquire land for the civic center under



a very tight timeframe. DHCD states that it requires a minimum of 5 months, scheduled from May 1 to September 30, 1977, to search land titles, obtain two independent property value appraisals, determine the fair market value of the land, and clear title. If preacquisition goes beyond October 1, 1977, there will be less time available to acquire property by the October 1, 1978, deadline and less time available to relocate businesses and residents by the March 30, 1979, deadline.

DHCD reported that the preacquisition work to be accomplished between May 1 to September 30, 1977 is fixed, uncontrollable time; delays during this phase would push back other project phases. In contrast the Municipal Planning Office stated that time lost during this period could be recovered during the 18-month preconstruction phase. The office did not, however, provide details.

#### Site acquisition

If preacquisition steps are completed in the time allowed and capital funds are available, DHCD could begin offering property owners payment for their land and improvements on October 1, 1977, as scheduled. On the other hand, slippage there could delay acquisition which would delay other project steps.

#### Environmental impact statement

The National Capital Planning Commission (NCPC) a Federal agency with authority over city planning in the District of Columbia, has determined that building the civic center is a major Federal action which requires the District to file an environmental impact statement.

Because the Planning Commission is subject to the National Environmental Policy Act, it cannot take any irretrievable action such as approving the location and program building plans for the center until 30 days after it files an environmental statement with the Council on Environmental Quality. According to a District official, the District cannot legally acquire property and relocate residents and businesses before the environmental statement is filed.

Despite the tight timeframe, the NCPC Director told us that the Commission will not make any exceptions to its impact statement procedures. The District will have to begin preparation of the statement in May 1977, complete a draft September 1, 1977, circulate the draft to commenting agencies October 1, 1977, and complete a final statement January 1, 1978. NCPC could then approve the project location and building plans by February 1978.

According to the NCPC Director, the statement filed for the Government Printing Office project is "most analogous" to the statement which will be filed for the civic center. Preparation began in late April 1975. A draft was filed in October 1975, a final statement was completed in September 1976, and NCPC approved it in December 1976. Total elapsed time was 19-1/2 months or 10-1/2 months more than the statement process planned for the civic center.

Whether the District can process a statement within the timetable depends in part, according to NCPC, on the competence of the consultants it hires. NCPC stressed that if the consultants make significant errors in judgment and do not carefully follow statement requirements, the timetable will slip. Another potential delay may result from commenting agencies' requests to extend the time for statement comments. NCPC could approve such requests to permit more time to analyze the draft statement.

### Relocation

Construction of the civic center on the Mount Vernon Square South site is estimated in the feasibility study to require the relocation of 62 households (about 124 individuals) and 69 businesses at a cost of \$1.8 million. Total time programmed for site acquisition and relocation is 18 months. According to District officials, the 18-month period is very "tight" and in order to complete site acquisition and relocation within this time "all pieces must fall into place." According to the feasibility study, "land acquisition and relocation at the recommended Mount Vernon Square is expected to be time consuming \* \* \*." The study further states that there are disadvantages to the Mount Vernon site that were weighed--the high land cost and the relocation problem. The downtown location is expected to provide for significant spinoff development to offset these disadvantages.

According to a District official, existing laws and District regulations require that an analysis be made of relocation housing resources expected to become available from October 1977 to April 1979, the date relocation of households is scheduled for the project.

All households that would be required to relocate because of the civic center development would be provided the full assistance available under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970. Under this Act, no household can be required to move until a replacement home or apartment is found that is of suitable size, with rent or monthly payment the household can afford.

A District official told us that the required analysis of housing resources would be prepared prior to relocation. He stated that the

private rental market is being counted on to house most of the persons relocated because of the civic center project. The District is proposing a housing and community development center in Chinatown at 6th and H Streets, NW., but a District official told us that, if built, this project would not be ready for occupancy for 6 to 8 years.

The feasibility study states that about 90 persons of Chinese origin are to be relocated and the District's goal is to relocate as many of these as possible in the vicinity of Chinatown. The Chinese Consolidated Benevolent Association stated it favored a civic center on the Mount Vernon Square South Site, provided the Chinese persons are relocated in the Chinatown area and at no financial expense nor any future increased financial burden.

It is doubtful the District can assure the Chinese that housing will be available in the Chinatown area. The closest subsidized housing projects expected to be available for occupancy before October 1978 are located 5 to 8 blocks from the center of Chinatown (H Street between 6th and 7th Streets, NW). These projects are in the Shaw Urban Renewal Area at 7th and N Streets, NW., 5th and N Streets, NW., and 3rd and N Streets, NW. The projects are authorized by the Housing and Urban Development Act of 1968 and designed to provide new or rehabilitated rental and cooperative housing to lower income families. Such housing is available to persons or families with gross incomes ranging from \$11,300 for an individual to \$20,000 for a family of eight. Generally, the gross incomes are too high to entitle such persons to low-rent public housing but not high enough to obtain available standard housing. We reviewed the District's survey of the incomes of the persons to be relocated and most of the individuals and families do not have incomes high enough to qualify for the projects cited.

In addition to the housing relocation problem, there is an additional relocation problem. The D.C. Joint Committee on Landmarks has designated the Elks Lodge on H Street, N.W., as a category III landmark; the only designated landmark on the civic center site. Category III is defined as follows:

Landmarks of value which contribute to the cultural heritage or visual beauty and interest of the District of Columbia and its environs, and which should be preserved or restored, if practicable.

Removal of the Lodge to make way for civic center construction could be delayed by the "Delay in Demolition or Exterior Alteration Regulation." Application for a demolition permit goes to the Mayor's agent for a determination (within 60 days) as to whether the demolition is contrary

to the public interest. If the demolition is found to be against the public interest, then the issue can be referred to the D.C. Joint Committee on Landmarks (such referral is not mandatory), for a decision. From the time of application for a demolition permit, the entire review and decisionmaking process would result in a maximum 6-month delay.

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The District could very well overcome all of these possible causes of delay. However, if it does not, completion of construction could slip and costs escalate as a result.

NEED TO PROVIDE  
EFFECTIVE MANAGEMENT

Recognizing that the civic center must be effectively managed to be financially successful, the consultants to the District government recommended a specific management scheme.

--The center should be managed by a highly qualified and competitively compensated manager reporting to an experienced board of directors. Management of the center should not be vested in one of the operating departments of the District of Columbia government.

--The board should report directly to the Mayor.

--The board and manager should be present and functioning during the design and construction stage, assuring that the facility will meet operational specifications.

In response to the consultant's recommendations, the District drafted legislation for an 11-member civic center board to include:

--The Mayor

--The Chairman of the D.C. Council

--Four eminently qualified persons with experience in these specialized fields--

- a. Banking and finance
- b. Business management
- c. Labor
- d. Convention promotion and support

--Three community representatives

--The Director of the Office of Budget and Management Systems

--The Director of Municipal Planning Office.

The draft authorizes the board to employ and fix the compensation and terms of a manager and such personnel as may be necessary to operate the center without regard to the provisions of the Civil Service laws.

The consultant observed that management effectiveness was critical to the successful development of the center. This person will have to be an efficient promoter, salesman, and administrator. The District's ability to locate and recruit such a person is uncertain.



GOVERNMENT OF THE DISTRICT OF COLUMBIA  
EXECUTIVE OFFICE  
WASHINGTON, D. C. 20004

May 17, 1977

Mr. Elmer B. Staats  
Comptroller General  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. Staats:

Thank you for the opportunity to review the draft report analyzing the feasibility of the District's Civic Center proposal. In the limited period available to the General Accounting Office, you have succeeded in defining clearly the issues involved in the Civic Center proposal.

While we agree with the General Accounting Office's definition of the issues, we do not share the concern about the "vulnerability" of the project. We believe that reliable processes were used in estimating the total number of delegates and exhibitors and the derived "spin-off" benefits, and that the project is definitely feasible. We support the figures used as ones that can and, in our judgment, will be achieved once the Center is fully operating.

Similarly, we believe that our construction cost estimates are reliable. If they err, it is on the conservative side. This conclusion is based on the District's excellent record in meeting construction and cost estimating schedules and timetables as well as the thorough process employed in calculating the cost of this project.

We agree with the General Accounting Office's (and our consultant's) conclusion about the importance of strong and effective management for the Center. Draft legislation that will be submitted to the Council shortly will provide for that strong and effective management.

We were pleased that the General Accounting Office draft report acknowledged the competence of the consultant effort going into the report.

As the GAO draft comments:

"The Consultant's Study represents a competent professional effort to analyze the pertinent information and reach supportable conclusions."

We also agree that the timetable to obtain approvals and go forward with construction is "a rather rigid timetable." However, we are convinced that we can meet this timetable with the priority effort that we are applying. Time has not permitted a full review of the GAO report. The following further comments represent an initial examination of the draft that was made available to us:

1. Market Forecast and Competition

- The consultant has said the Center would draw between 41-52 major non-local events. However, the feasibility equation is based on 35-43 non-local events, thereby allowing for other new local facilities such as the Sheraton Park.
- We should not expect potential users to make commitments before a Center is under construction. Some 85% of the sample interviewed said they will come to Washington if adequate facilities are available. Recently, the National Association of Broadcasters said it will not return until a modern large civic center is built here.
- The 118,000 square foot figure is the exhibit space in the Sheraton Park. Some additional exhibit capacity is theoretically possible by using meeting rooms space, etc., but that is not prime exhibit space. The draft suggests that space needs may be overestimated by 25%. The space needs figures used by the consultant were based on historical figures of space actually used, not estimates of future demands.

- The draft raised questions about the local competition for meetings in the 100-200,000 square foot range. Our estimates have allowed for competition by the Sheraton Park and others. The expanded Sheraton Park can only handle a portion of the increased business possible for the District, nor can it host several large conventions at the same time as the Civic Center proposes to do.
- The draft report used an "uninflated" rate of return of 3 to 4 percent. Since our construction costs have been escalated for inflation, such a calculation would not be valid unless a similar calculation deescalating construction costs is made.
- Our parking strategy is to restrict convention parking space to convention support activities and short-term uses. We expect that most conventioners and local persons will use other transportation to reach the Center (Metro, special busses, taxis, etc.). New development would be expected to include appropriate provision for parking.

2. Construction Estimates, Project Timetables, and Relocation

- On the tax and management proposals, we look for Council action on them well before the October, 1977 date.
- The Department of General Services believes it has estimated the construction costs correctly and competently.

The \$109.6 million figure is, in our view, achievable. We note that the General Accounting Office draft suggests the figure may be \$12.6 million less or \$7.9 million more. Our figure falls above the midpoint of that range.

- We have begun work on the (EIS) Environmental Impact Statement. We expect to produce the final EIS in November, 1977, making it possible for the National Capital Planning Commission approval action to occur promptly thereafter.



- The draft GAO report calls attention to discrepancies in relocation numbers. We support the figures used in the budget statement. The Department of Housing and Community Development has indicated there may be some increases as further checks are completed.
- The apartment house and community center in Chinatown is not viewed as an immediate relocation resource, although it is looked to as a possible long-term relocation facility. Present schedules call for completion and occupancy of this project within three to four years, not the longer period estimated in the draft report.
- The Elks Lodge historic preservation review will not delay the project, in our view. We expect it to be resolved well within the 18-month period that has been allowed. Removal of this building can be accomplished, we believe, without delaying the project.

One final comment:

As the consultant emphasized, the Civic Center is a "public enterprise" project for the District of Columbia. As such, we expect it to yield a fiscal return to the City as well as providing a much needed resource.

Again, thanks for your courtesy in presenting the draft to us for review. Although we have not made an exhaustive examination because of time limitations, we believe that we have addressed most of the significant questions in the draft report.

Sincerely,



Ben W. Gilbert  
Director  
Municipal Planning Office